

**ENRON CORPORATION**

**Moderator: Jeff Skilling**  
**January 22, 2001**  
**9:00 a.m. CT**

Operator: Good morning, everyone, and welcome to the Enron's fourth quarter earnings release conference call. This call is being recorded. At this time, I would like to turn the call over to President and Chief Operating Officer, Mr. Jeff Skilling. Please go ahead, sir.

Jeff Skilling: Thank you very much, and good morning, everyone. This is Jeff Skilling, President and Chief Operating Officer of Enron Corporation. With me here today in Houston, I have Mark Koenig, who is Executive Vice President of Investor Relations, Paula Reiker, who is the Managing Director of Investor Relations, Rick Causey, who is an Executive VP and Chief Accounting Officer, and Steve Kean, who is the Executive VP and Chief of Staff.

But thank you very much for joining us on the call and Web broadcast this morning. Earlier today we reported our fourth quarter and full-year 2000 results. We hope you've had a chance to see the release. In summary, we had a tremendous year in the year 2000. Strong results reflect what we believe is breakout performance in all of our operations. The results also further demonstrate our leading market positions in each of our major businesses.

Our wholesale business led our strong financial results, achieving record levels of profitability and physical energy deliveries. 2000 was our first full year of reaping the benefits of Enron Online, which has not only extended our market reach, but has also enabled us to significantly scale and grow our business. Our retail energy services group also had an outstanding year. The business showed increasing profitability in each quarter during the year 2000 and almost

doubled its new outsourcing contracts.

Enron Broadband Services substantially completed its flexible, scaleable broadband network. The business also gained traction in both its - in both of its major businesses - bandwidth intermediation and content services.

2000 was also another excellent year for our shareholders. Enron shareholders had a total return of 89 percent for the year, and this strong return is on top of Enron's 1999 return of 58 percent, and our 1998 return of 40 percent.

During today's call, I will summarize the financial highlights for both the full year 2000, and the fourth quarter, and then we'll take your questions. Let's start with the first - or with the full year.

For the full year 2000, we reported total revenues of \$101 billion. So, we broke the \$100 billion mark. A 25-percent increase in earnings per share to \$1.47, and that's compared to \$1.18 a year ago. A 32-percent increase in net income to \$1.3 billion, up from \$957 million in 1999. A 59 percent increase in wholesale marketed volumes to 52 trillion BTU equivalents per day, and an almost doubling of new energy services contracts to \$16.1 billion for the year.

Fourth quarter numbers, we reported excellent recurring results, including revenues at 41 billion. A 32 percent increase in earnings to 41 cents per diluted share, compared to 31 cents a year ago. A 34 percent increase in net income to \$347 million, versus \$259 million a year ago. A 90 percent increase in wholesale marketed volumes to 65 trillion BTU's, and a 73 percent increase in new, retail energy services contracts to \$4.5 billion.

I'm going to walk through each of our different business areas, and give you more detail on performance starting with our wholesale services. Our wholesale business is our largest operation. It continues to grow at a very, very strong rate. Earnings in this business have grown at a 48 percent average annual rate for the past five years and including a 72 percent increase in year 2000:

During 2000, Enron further widened its strong leading market position in the wholesale energy markets in North America and Europe. We built a tremendous market franchise that has significant sustainable competitive advantage. A very distinct advantage for us is Enron Online, which has enabled several key benefits. First, Enron Online has provided a huge, new market reach for us. In the fourth quarter we had over 3,000 online customers. Equally important, the internal features of Enron Online have launched us into a new level of efficiency, scale, information and liquidity. We executed 548,000 transactions online during the year 2000, totaling \$336 billion of gross transaction value.

For the quarter, our wholesale earnings were strong in every region, worldwide. We built a broad-based business that is operating in multiple, fast-growing markets in both North America and Europe. In this past quarter, the wholesale business reported total income before interest, minority interest and taxes, or IBIT, of \$777 million, compared to \$263 million last year. We report our wholesale business in two categories - commodities, sales and services, where we market energy commodities and services and manage the associated contract portfolios, and the secondary is assets and investments, where we invest in, develop, construct, and operate energy and other assets, worldwide.

IBIT for the commodities, sales and services component of the wholesale business, was \$538 million for the fourth quarter, led by an almost doubling of worldwide energy deliveries. Total physical volumes delivered for the quarter grew to 65 BCF per day, versus 34 BCF equivalents per day a year ago.

Let me go through each of the commodities in that commodities, sales and services area, to give you a sense for how each of the-commodities did. Our natural gas business made a very significant contribution to fourth quarter's results. We are experiencing both growing overall market demand, and increasing market share, and again, our growth is very broad-based. Total physical natural gas volumes doubled in the fourth quarter, to a record 34.2 BCF per day, from 16.9 BCF a day in 1999.

In North America, fourth quarter volumes grew 92 percent, to 29.3 BCF a day. These results included U.S. gas volumes at 22.3 BCF a day, with growth in every region of the United States. The largest volume increases were in the Eastern U.S. - excuse me - followed by strong increases in the Central U.S. and Canada.

Gas volumes in Europe increased three-fold, to 4.9 BCF a day in the fourth quarter. On the continent, where the gas directive was implemented in August, we've seen the number of customers accelerate very quickly. Excuse me. I've got a lot of material to go through here. We're expanding our presence at new gas marketing hubs every few weeks, extending our markets well beyond our initial markets of the Netherlands, Belgium and Germany.

Let me turn now to the power business. Total physical power volumes increased 124 percent during the quarter, to 212.2 million mega-watt hours, from 94.8 million mega-watt hours a year ago. In North America, power volumes increased 114 percent in the fourth quarter, to 188.8 million mega-watt hours. Our North American power business is also very broad-based. During the fourth quarter, U.S. volumes were split approximately 40 percent in the Western U.S., and 60 percent in the East. Excuse me. Let me just take a little sip of Coke, here.

We've recently signed agreements to sell some of our assets related to our North American commodity business. These assets include Houston Pipeline and five of our Peaker power plants. These sales are expected to close in the year 2001, and no financial impact of these sales is included in today's results. With the greater liquidity in the marketplace, and the success of Enron Online, we no longer need to own these physical assets to ensure reliable delivery to our customers. Enron can uniquely replicate these physical assets through our very broad contracting and market-making activities.

Let me talk for just a second about Europe. Our power volumes outside of North America increased over 250 percent from a year ago, to 223 - I'm sorry, to 23.4 million mega-watt hours. Just as in gas, Enron is establishing power marketing hubs across Europe, and the greater liquidity is allowing us to extend our business to originating longer-term products for these customers. Excuse me. Now I'm going to suck on candy for a minute.

In terms of new businesses, in addition, we continue to build new businesses within our wholesale business such as metals, and pulp and paper, where we can use Enron Online to rapidly penetrate markets and build market share. The value of these businesses contributes to our significant wholesale earnings growth.

(no conversation)

So that's a summary of the commodities, sales and services side. I really apologize. I am - I am gagging. I stood outside in the rain in Washington, DC, watching the inauguration, and I'm paying for it.

Let me move to assets and investments on the wholesale side. IBIT, attributable to our assets and investments business for the fourth quarter, was \$309 million versus last year's level of \$149 million. This business includes our stand-alone energy assets, and our merchant energy investments. The increase in IBIT from the prior year is primarily due to the increased value of our merchant investments and monetization of certain European energy operations.

In summary, let me reiterate that we continue to see phenomenal opportunities in the wholesale business all across the world, in all commodity segments.

(no conversation)

Operator: Ladies and gentlemen, please stand by.

Jeff Skilling: Excuse me. We've been on mute for just a minute. Let me come back and finish up our assets and investments category for the commodity sales group.

In assets and investments, the IBIT attributable to our assets and investments business for the fourth quarter was \$309 million, versus last year's level of \$149 million. This business includes our

stand-alone energy assets, and our merchant energy investments. The increase in IBIT from the prior year is primarily due to the increased value of our merchant investments and monetization of certain European energy operations.

But in summary, and I'm sorry for that dead air, there. I was coughing, and we put the thing on mute. I apologize. We were standing in the rain at the inauguration in Washington, and I'm reaping the unfortunate benefits of that. But the wholesale business has just done great. We had a just a fantastic, quarter, a fantastic year, and we're looking forward to a great 2001.

Now, before I go on and discuss our other businesses, let me comment for just a minute on California, because I know it's on everybody's mind. We are all aware of the reasons for California's current situation. Excuse me. There is a severe supply/demand imbalance in California. The way the state structured deregulation, they have excessive reliance on the spot market, by the State's utilities, and finally, they failed to fully deregulate retail markets, that there are no price signals being sent to retail customers that there is, in fact, a shortfall of available supply.

Now for Enron, the situation in California had little impact on fourth quarter results. Let me repeat that. For Enron, the situation in California had little impact on fourth quarter results. Because we're not a generator in California, we, number one, do not invite the same accusations the generators have faced regarding excessive profits. And number two, we do not have significant investments which are captives to State. Our profits are derived from the merchant activity that we elect to conduct in the state. We are closely monitoring our exposure to all of our customers. Now, we do not expect the California situation to have any significant impact on Enron's financial outlook, specifically, our ability to hit 2001 targets.

Enron's wholesale business generated \$2.3 billion of worldwide earnings in 2000. Earnings were broadly generated across the U.S., Canada, Europe, and other countries. California's a much smaller percentage of our overall earnings than some of the other energy companies, particularly generators. We have a policy of not disclosing specific credit positions, but as many of you know, evaluating credit, and monitoring credit, has been a key part of our control function since we started

marketing gas and power over 10 years ago. We believe that we have adequate reserves for all of our counterparties. The bottom line is this - we are not overexposed in California, or anywhere else for that matter. Ken Lay, and other senior management members have participated in key meetings to ensure that a solution to this situation is completed in a manner that ensures that power is reliably delivered to California consumers. But, in summary, we are not overexposed in California. Our earnings were not significantly impacted by California in the fourth quarter, and we don't expect them to be significantly impacted moving forward in time.

So with that, we leave the wholesale business, and let's move now to our retail energy services business. Another great story in the retail energy business. For the fourth quarter, retail revenues were \$1.7 billion. Fourth quarter IBIT was 33 million, compared to seven million a year ago.

For the full year we reported \$103 million of IBIT, compared to a 1999 loss of 68 million. We continue to see very strong levels of new contracting. New energy contracts during the quarter totaled \$4.5 billion, including a 10-year agreement with the Masterich Company, a publicly-traded REIT and Pilkington the North American arm of a British glass maker.

For the year, Enron energy services contracted \$16.1 billion of new energy contracts, right on target, and almost double 1999 levels. Enron continues to lead the market in providing nationwide, comprehensive energy outsourcing in the U.S. We have rapidly gained presence in Europe, both extending relationships with existing customers, and acquiring new European customers.

The current environment of high energy prices and unprecedented volatility, presents tremendous opportunities for Enron with its retail business customers. We are actively marketing our price risk-management services in conjunction with reliable physical delivery of energy, to provide an extremely valuable service to these customers. Enron is uniquely situated, with all the skills and tools necessary to be the provider of energy services to businesses in today's market.

Later this week, we'll be announcing our contracting target for the year 2001. We are already off to a great start this year, as demonstrated by the recently announced major energy management agreement with Owens-Illinois, for \$2.2 billion of new contract value. Just incidentally, that is now our largest contract signed to date in the retail energy business. So the retail energy business; great quarter, great year, great outlook for the year 2001.

Let me move to our transportation distribution business. That business includes Enron transportation services, which represents our interstate gas pipelines and Portland General Electric. The group's fourth quarter IBIT was \$203 million, and combined full-year IBIT increased seven percent to \$732 million.

All of our major pipelines continue to report solid earnings and cash flow. Planned pipeline expansions across our system are progressing on schedule, and the stable earnings and cash are expected to continue.

And last, but not least, our Broadband Services business. Our newest business, EBS, reported an IBIT loss of \$32 million for the fourth quarter. They also reported a full-year loss of \$60 million, which is right on track with our expectations, reflecting the costs to establish the business, offset by a successful monetization of a portion of our Broadband delivery platform.

During the year, Enron substantially completed our low-cost, flexible and scaleable broadband network. We have 25 pooling points in operation, surpassing our full-year target of 13. With these pooling points in place, we've effectively created the first network of networks that will enable wide, third-party network connectivity. Now we are building commercial businesses and contracts, very similar to our energy model.

Enron is actively making markets and transacting in bandwidth intermediation. In the year 2000, we completed over 320 bandwidth transactions, including 236 in the fourth quarter, up from 59 transactions in the third quarter. So we now have a market for bandwidth in North America, and increasingly in Europe and Asia. We are also physically delivering bandwidth against these contracts. We report these deliveries in terms of DS3 month to equivalent, which is a common



denominator that we use for different sizes of bandwidth. In the fourth quarter we delivered 2,393 DS3 month equivalents, and 5,209 for the full year, exceeding our 2000 target of 5,000. So we do have a market now, and we are actively engaged in that market for bandwidth.

Our other major broadband business, which is content services, we also had a successful fourth quarter, where we launched the first phase of our content-on-demand product. As the wholesale service provider, we are delivering movies on demand in select areas of Seattle, Portland, Salt Lake City, and New York City. We believe that we have a very unique and powerful commercial proposition that, packaged with this proven technology, creates an enormous opportunity in one of the world's fastest growing markets.

Just a few other items corporate and other. In corporate and other we reported it IBIT loss of 134 million for the fourth quarter of 2000. This segments earnings decreased primarily due to expenses associated with our corporate-wide growth. Nonrecurring items. In addition to the results I've discussed, Enron reported nonrecurring charges totaling 35 cents per diluted share. Major components included a \$326 million after-tax charge principally for Enron's portion of impairments reported by Azurix related to assets in Argentina. We also reported \$39 million in net after-tax income, reflecting the issuance of stock by the New Power company, partially offset by certain costs of Enron's retail energy business.

So, in summary, we are certainly pleased with our fourth quarter and full-year results. We're very excited about the continuing positive business developments across the company and remain confident that our strong performance will continue increasing profitability and expanding returns to shareholders. And, again, I apologize for the throat, but with that we will move on to questions.

Operator: Thank you, sir. The question-and-answer session today will be conducted electronically. If you would like to ask a question, simply press the star or asterisk key on your telephone pad followed by the digit one. We will take as many of your questions today as time permits. Once again, if you would like to ask a question, press star, one on your

telephone keypad now. We will pause momentarily to assemble our roster.

And we'll take our first question today from Raymond Niles with Salomon Smith Barney.

Raymond Niles: It looks like, I mean, just, very good results. But, the question is, on the margins, it appears that margins are up for the second half of the year and can you associate that with any

particular factor and what do you expect. I'm talking about unit profit margins, what do you expect to see in '01?

Jeff Skilling: Thanks, Ray I think in the early part of the year, the margins were a little bit compressed just because we had this enormous fly-up in activity due to Enron Online. And as I mentioned at the time, I fully expected that the profitability would follow along with the volume increases that were seeing from Enron Online. I think that's what happening.

As I look out to next year, Ray, I think the margins look very good. We're in a period of time when what we sell is what the market wants. Predictable prices and reliable delivery carries a premium right now, so if anything I'd expect to see margins strengthening over the next year.

Raymond Niles: And then a question on bandwidth. It looks like the transaction volumes took off considerably this quarter. Is there any particular factor you can attribute that to? And we still hear in the industry about debating on terms and conditions for contracts, Seems like that, is that pretty much a non-issue at this point?

Jeff Skilling: Well, Ray, you know, it's just like when we started the gas market. It took probably four or five years in the late 1980s to settle on specific standards, settle on delivery locations. But in the interim, there was a lot of business being conducted as people created their own contracts, their own terms and conditions, and transacted bilaterally in the market place. So, no, I don't think it's going to slow down the market at all. I think we're seeing what we expected to see. It takes a little while to get it going, but once you get that

curve, it takes off very, very quickly.

Raymond Niles: OK, great. Thanks a lot.

Operator: We'll take our next question from Linda McDonough with Manchester Growth.

Linda McDonough: Hi, yes. I wonder if you could just - you talked about your exposure in California, as far as geographic exposure. How about - is there any possibility, for example, if the Power Exchange goes bankrupt just as sort of a draconian measure, how would that impact your business?

Jeff Skilling: Linda, this is Jeff Skilling again. We don't talk about specific credit exposures, but I can say unequivocally that if you take the consensus earnings estimate for next year, which is \$1.65 to \$1.70. There - nothing can happen in California that would jeopardize that kind of earnings performance next year.

Linda McDonough: OK. So, it's that small for you?

Jeff Skilling: Yes.

Linda McDonough: OK. Thank you very much.

Operator: We'll next go to David Fleischer with Goldman Sachs.

David Fleischer: Hi, Jeff. A couple of item related questions. First, in and around energy services, how much of the \$16 billion, 16.1 last year, of new contracts represents contract extensions versus new contracts? Specifically, you had announced earlier in the year, you know, an initial contract with IBM as an example. You know, would you have added substantial volumes, you know, from a contract like that, you know, over the balance of the year, or not?

Jeff Skilling: David, I'd have to go back and get the specific numbers, but new contracts would be

probably on the order of 85 percent of that number.

David Fleischer: OK. So, there's a lot of room given what you've said in the past for extensions in future periods to add to that, clearly.

Jeff Skilling: Absolutely. I think, um, we're expecting that, um, from the contracts that we have in-house now, that we should see over some period of time something over two times the total amount of business from those customers, as we get signed up under the original contracts. So, there's a lot of room for expansion.

David Fleischer: Why doesn't that happen over a relatively finite period of a year or two? It seems like a lot of it should be up front. We should see an awful lot, you know, of your volumes or revenue increases next year contracts, you know, signing this year from extensions.

Jeff Skilling: Well, if you look at 15 percent of \$16 billion, it's still a lot of money relative to the contract if it's going on the past. I feel real good about our progress in extending the contracts.

David Fleischer: OK. Second question, you know, you're selling your Houston pipeline, power plants, what do these sales and others say about your ability to monetize, you know, some larger amount of assets and what is the offset investment requirement in, you know, intellectual capital related businesses, let's say, and as we look out over the next several years. Is it going to be partial? Is it going to be fully, what you monetize out of this? Will we start seeing, I guess the question is will we start seeing more, or less, net investment and more disinvestment and a strengthening balance sheet come out of all of this?

Jeff Skilling: Well, there is, there is absolutely no question, and I will be totally unequivocal, whatever that word is. We have a lot of room to lighten up our asset positions inside this company, and we are working on it very hard. And probably - my only frustration with the last year was the slowness of our progress in monetizing some of our international assets. And that is coming along and I commit to you that we are going to be continuing that. So, you should see, over the next several years, a significant strengthening of the balance sheet as we monetize some of the lower return assets and have that capital available to deploy into the new businesses. But if you look longer term, David, look at the three big businesses, outside of our broadband business, the transportation services business, our pipeline business; is cash positive. We don't invest as much in that business as it throws off in cash. The wholesale business, believe it or not, even with the huge growth rates we're seeing in that business, our incremental return on invested capital in that business is so high that we can grow at a 40 to 50 percent rate in that business with no additional capital infusion to support that growth.

The retail business, as we all know, is basically cash and carry. To the extent that there are capital investments in customer facilities and premises required, that can be securitized. So, my expectation is that having turned the corner on profitability in that business, we would expect it to be cash positive moving forward as well.

So, the only business, really, that we have future investment requirements in is our broadband business. We told people what we would be investing in the year 2000 and we actually kind of undershot that number in the year 2000. My expectation for the next year would be at a similar capital number to what we were projecting last year. So, overall, we should be cash positive and improving the balance sheet over the next couple of years.

David Fleischer: So, your biggest problem is what to do with all this cash? Thanks, Jeff.

Jeff Skilling: That's always the big problem. Thanks, David.

Operator: We'll take our next question from Curt Launer with CS First Boston.

Curt Launer: Good morning. Two unrelated questions, if I could. First, just relative to California, I know you don't want to provide details of how you look at risk management there, but is there anything you can say relative to differences in percentages of reserves taken against certain contracts compared to other parts of the country, based upon what's going on in California right now?

And second, I'd like to extend the question relative to Enron Energy Services by asking specifically about the Owens-Illinois new contract, \$2.2 billion, and how that compares to the original Owens-Illinois contract and what it might represent in terms of increasing margins for EES, because it's probably the most significant up-selling you've had to date.

Jeff Skilling: Thanks, Curt. First, on the whole California thing, I can just assure you - I can't go into all the specifics of how we reserve and the calculations, but you've been here, you've seen the mechanics that we go through to do that. We feel that we have properly reserved, fully reserved, for anything that can go on in California at this point.

On the Owens-Illinois contract, I guess we're pulling a little bit of a tough one on here because this is Owens-Illinois. The original contract is Owens Corning, and so these are two very different companies. The contract structure is similar in both cases, though.

Curt Launer: OK. So, there's really no calculation we could make relative to improving margins because they're different companies. I'm sorry, I didn't realize that.

Jeff Skilling: Yes, I'm sorry about that. It gets a little confusing around here, too.

Curt Launer: OK. Thank you.

Jeff Skilling: Thanks, Curt.

Operator: We'll go now to a question from Bret Connor with Commerce Bank.

Bret Connor: Hi, good morning. Congratulations on a good quarter. A couple of quick questions for you. First on Enron Broadband Services just a couple of questions. I noticed, first of all, that there were some dark fiber sales this quarter, also some monetization of the network. I'm wondering if you can give us a sense for how big of a contribution that made to the earnings for EBS in the quarter? And also, is that something we should continue to see going forward until the business starts to break even, or is the network largely where it needs to be?

Jeff Skilling: OK. Let me turn that over to Mark Koenig. He's got the specifics here.

Mark Koenig: Yes. Bret, there were no dark fiber sales in the quarter and the monetization that we referred to was fairly small, we don't disclose the specifics of those transactions, but clearly it offset some of the kind of normal operating costs of Enron Broadband Services. And we'll have some of those, just as we've had in wholesale and retail throughout this year. But it's a fairly small amount.

Jeff Skilling: And Ken Rice, who runs EBS, just walked in and, Ken, where do we stand on, just, network basically installed?

Ken Rice: Yes, I think for all intents and purposes, our long-haul network is basically installed. We've got a couple of air gaps to close up and things like that, but you won't see us adding any significant long-haul fiber. What we're going to focus on is working the ends, and continuing to install the switches and pooling points and interconnects with other networks, because we've been able to demonstrate that that's obviously, at least for our business model, a much more efficient way to go and to build our trading and intermediation business.

So, over the next couple of years, unless there are very specifics projects, there will not be very much long haul fiber, and most of our network expenditure will be putting in pooling points and connectivity.

Bret Connor: OK. Now, looking at the DS3 month delivered and content services contract value, it looks like you did a pretty good job of hitting your targets for the year, although it also looks

like you've got pretty huge growth targets for next year, if I remember the numbers right from the analysts conference last year. Obviously, this market is taking a while to develop. Does it look like things are still on track for the type of DS3 month delivery volumes and the volume of content services contract value for 2001 that you previously expected?

Ken Rice: Yeah. We're going to announce that later this week, exactly what our targets are, but we are right on track with what we talked about last year and I would add one editorial comment. I think the transaction volume and really the acceptance of the industry is right on target with what we expected and in some ways faster in some areas. But, we'll get into that in a little more detail later on this week at the analysts conference, but this is like light-speed compared to the electric and the gas industry.

Bret Connor: OK. And then, you said that your network is largely in place and Jeff had said that cap-ex this coming year will be pretty similar to what it had done last year. After this year, will the cap-ex start to come down a bit or will there still be significant investments in pooling points and servers and things like that? What kind of outlook beyond this year do we have for cap-ex.

Ken Rice: Well, my perspective is cap-ex will probably ramp down after this year. We don't, we don't know for sure what's going to be out there in terms of adding pooling points, but it will be more of an incremental decision after 2001, because we will have the major cities all interconnected with our pooling points in 2001. Then it's a fairly easy mathematical DCF analysis of whether we add one in the next city. So, they may continue to be capital investment in getting connectivity,

but it won't be to get that initial scale, it will be incremental decisions to add pooling points in cities that look like they have a lot of traffic for us.

Jeff Skilling: And right now, I think one of the big opportunities and the big bottlenecks in the system is getting more access to local connectivity. And that's basically getting your switches in place, getting the servers out and located and so that will continue at a relatively high rate for the next several years.



Bret Connor: OK. I appreciate that. I do have two others non-related questions. First, on Enron Online, it sounds like things went very well for the year and it sounds like you're continuing to add volumes. I'm curious though; obviously, there have been some new competitors who have entered the scene. You know, you're still in great position, but what is your outlook right now on Enron Online's ability to maintain the volumes and the growth that it's had? And also, what should we look forward to in terms of Enron Online maybe interfacing with some of the other online exchanges? Will there be anything happening there, or what types of things might we expect?

Jeff Skilling: Well, you know, again, I frankly have been kind of surprised by it. We have seen a couple of new platforms come up, but our growth rates have stayed similar. In fact, we'll show a chart that shows transaction volumes by day and we continue to hit new records. So, I guess my expectation is we'll continue to see growth there.

Bret Connor: Ok, and then just a final question: On Europe, it looks like your gas volumes did increase substantially there as well. I know the gas market has tended to be pretty illiquid in Europe. I'm mostly curious, just, more broadly; Europe is one of those markets where there's not quite as much liquidity as in the U.S., it seems, and your strategy has often been to enter a region with assets first and then get out as the market gets liquid.

Is it - are things at the stage in Europe right now where there's enough liquidity that you don't need to have assets there? Or do you think that, you know, it might make sense for you to build new facilities, new power plants, or new gas assets in the region? Just general comments on that.

Jeff Skilling: OK. There's really two markets in Europe. There's the, kind of, the core markets, Germany and all of the surrounding countries, U.K. and Scandinavian. In those markets, there is actually a reasonably good liquidity situation right now and we don't believe it's necessary to own or develop assets in those areas. As you move to the rim of Europe, Spain, Italy, Greece, the former Yugoslavia, there is a need for additional inter-connectivity and capacity and so, in those markets we are in the process of developing sites and working to develop facilities.

Now, I will say that this is a different kind of development program than what we had, for example, in South America or India. It's our expectation that we'll develop these projects. Once they're developed, we think that there are opportunities to monetize or sell those assets and yet still retain the ability to tap into liquidity from some of those facilities. So, Europe will be much less capital intensive than what the original assumption was. We seem to be able to create liquidity. And, by the way, the main thing that matters as you go into those core areas, not absolute liquidity, it's really relative liquidity. What is your liquidity position relative to the people you're competing against, and we are in an awesome position right now that we have a huge head start in Europe. And that gives us a very, very strong market position.

Bret Connor: OK, Great. Thanks, I appreciate it.

Operator: We'll take our next question from Anatol Feygin with J.P. Morgan.

Anatol Feygin: Good morning, everyone. A couple of questions. One, Jeff, as you look forward, obviously, you're extremely well-positioned right now, but what impacts do you guys see the California deregulation having on the pie, on sort of the wholesale energy pie, growing. Especially, we've seen it play out in Alberta most recently, where they kind of retrenched. And, how do you see that effecting your business, on-the wholesale side, especially, going forward?

Jeff Skilling: Well, Anatol, I think it's probably going to improve our - or, improve the overall pie on the wholesale level, because everybody that's looked at this market has said that one fix, all across the country, is we have to improve transmission access. And I think with the change in administration, the change in the composition of the FERC, I would expect to see significant improvement in the availability of transmission capacity. So, at the wholesale level, I'm convinced it's going to be very positive for the future development and growth of that market.

Now, on the retail level, you know, there's no question that if a state has not deregulated yet, does not have legislation or regulatory order in place, they are going to be very hesitant to move in that direction. So, on the retail level, it would be my expectation that we're not going to see many more states, or maybe even any more states, move forward toward a deregulated

market. But, again, you know, we've got about 50 percent of the U.S. population in jurisdictions where there is deregulatory process underway. So, it's still a gigantic market that we've really just scratched the surface of. So, I think we've got a lot of running room there, but there is no question that the local and state regulators are a little gun-shy about this whole thing right now.

Anatol Feygin: Great, thanks. A quick update on Portland, where the sale stands there, on Portland General?

Jeff Skilling: Yes, we are still projecting by the end of this quarter.

Anatol Feygin: OK. And one quick question on retail in terms of the numbers that you guys reported of 33 ongoing and 62 one-time gain from New Power. Last quarter, there was a 37 million gain that was in other income. Was that from New Power as well?

Mark Koenig: That - Anatol, this is Mark. There was income recognition in earlier quarters from some sales of some warrants that we disclosed. There were, none of those income items in the fourth quarter. In fact, as you know, we have to record our share of the New Power companies equity earnings, or losses in their case, they will be announcing their earnings in February. But, as you can imagine, we have a provision in our recurring earnings for that business, which is off to a good start.

Anatol Feygin: OK. So, the 37 million gain in Q3 was not related to New Power?

Mark Koenig: It was related to Enron's investment in the company. The nonrecurring item in the fourth quarter represents the increase of our basis for the issuance of New Power for the stock offering they did on October 2nd.

Anatol Feygin: Right. The thing that I'm trying to reconcile is the 37 million gain in Q3, which was included in ongoing IBIT.

Mark Koenig: That's right.

Anatol Feygin: And the 62 million gain in the fourth quarter, which was not included looked like kind of similar things.

Jeff Skilling: Well, technically they were different and their different owners. So, Anatol, if you'd like...

Anatol Feygin: OK. Sure.

Mark Koenig: I can give you a call.

Anatol Feygin: Thanks, Mark.

Mark Koenig: But, for the most part, the item that you were talking about in the third quarter-first of all, all 37 of that other income was not related to New Power. Only a portion, a smaller portion of that was. But, the point is, in the fourth quarter there were none of those income items resulting from that. But, give me a call and we'll go through that.

Anatol Feygin: Thanks, Mark.

Mark Koenig: It's very, very small.

Anatol Feygin: Thank you very much, gentlemen.

Operator: We'll take our next question from William Maze with Bank of America.

Jeff Skilling: Hello? Hello?

Operator: Sorry, sir. Mr. Maze seems to have come out of the queue. Mr. Maze, if you can hear me, if you would like to queue up again, we will go to your question. We'll go now to

Andre Meade with Commerce Bank.

Jeff Skilling: Hello?

Operator: Mr. Meade?

Jeff Skilling: Hello?

Operator: Gentlemen, I'm sorry. We're having a little bit of a problem with our Q&A. We'll take a question now from Brian Chu with Highfields Capital.

Richard Grubman: Yes, hi. Good morning. It's Richard Grubman. I was wondering if you could tell us what assets and liabilities from price risk management activities were at year end, both current and non-current, so those four balance amounts. Thanks.

Jeff Skilling: Gee, I don't have that information with me.

Rieker: The question had to do with price risk management and that comes out with the balance sheet, which will be disclosed in our 10K. In terms of impact on overall cash flow, we would expect, you know, for the full year 2000 that earnings would roughly equal cash flow.

Richard Grubman: I guess I don't understand why we can't get sort of seminal balance sheet data now.

Mark Koenig: Well, this is Mark Koenig. And Rick Causey is here, our accountant. We have not finalized all of the balance sheet data and we'll disclose that as we put that together with the associated notes that are important to accompany that. That's the reason.

Richard Grubman: OK. Thank you.

Operator: Gentlemen, we'll go to a question now from Paul Tice with Deutsche Bank.

Paul Tice: Good morning. Just a handful of questions. First, in terms of asset sales, you mentioned that the pipes are throwing off cash flow right now. How do you see continued ownership of the pipelines within your business mix going forward, which is increasingly more asset free?

Jeff Skilling: Well, they'd be - the exercise that we're going through, here, is to look at, all of our assets and identify which assets are not earning a rate of return that's adequate for the company and the pipelines, in contrast to that, are earning very good returns, and so the pipes are going to be in the mix, I think as long as I'm at Enron Corporation. We have lots of other assets though, that aren't going to make the cut.

Paul Tice: Any more details you can give in terms of geographical concentration of those assets that aren't going to make the cut?

Jeff Skilling: No, it's, you know, across all of our businesses we're just working very hard to identify places that - for example, the Peaking facility sales, these are basically brand new assets inside of the company and, just given our expectation of what the future market looks like, this was a great opportunity for us. And so we will be continuing to do that across all the assets. So, I - it's going to be on a case-by-case, project-by-project, asset-by-asset analysis.

Paul Tice: And what's the consolidated cap-ex number for 2001?

Mark Koenig: The consolidated cap-ex and equity and investments would probably be two-and-a-half to \$3 billion, very similar to what we've had the last several years.

Paul Tice: And, in terms of stated leverage targets that you have, are there any numbers that your.

Mark Koenig: The leverage targets haven't changed much. Obviously, to maintain the

financial condition, we want to see leverage targets along with operating cash flow and other measures. In fact, they haven't changed much at all, and I think we should expect to see those look fairly similar with some impact of the assets sales that we talked about throughout next year.

Paul Tice: And two quick ones. Any targets that you have currently, in terms of Enron Online, for 2001? Whether volume or number of transactions.

Jeff Skilling: We really don't have any right now. We're just letting it roll, letting it rip.

Paul Tice: OK. And the last question. Can you just give us the status on where you stand with the rating agencies?

Jeff Skilling: Gee, I guess we're just in great shape with the rating agencies. Went up and met with them in October. They all seemed to be real happy, so, I guess things are just fine.

Paul Tice: OK. Great. Thanks.

Operator: We'll take a question now from Sam Nangia with Credit Lyonnais Securities.

Sam Nangia: Congratulations on a great result. Just had a quick follow-up question on unit margins and volumes. I mean, you know, again, we saw this time that your volumes went up, unit margins went up for you guys, and they seem to be much higher than they are for, let's say, even the number two or number three companies in terms of trading volumes, and I was wondering if you could just comment on that and just what you see going forward with ICE and, you know, some of the other exchanges taking away, perhaps, some of your volume.

Jeff Skilling: Well, again, I have no expectation that they will take away volume. I expect Enron

Online to continue to grow. It might impact the rate of growth, but that, to date, has not been the case. We've continued to see very, very strong growth in Enron Online.

Now, as far as margins, and our margins versus the next player in the industry, I'll tell you what my feeling is. My theory on this is that the economics of our business are, replicate network economics.

The broader our reach is the more options that we have to supply power, supply natural gas, supply bandwidth to customers. The more options we have is a direct function of the scale and scope of our network. And if you believe that, network economics would tell you that relative network economics are a geometric function. And if you look at our relative size, compared to the number two, number three players, we're about at any give time we're a little over twice as big as the next player. And if you use that exponential relationship, you'd expect our long-term earnings to be something on the order of four-times the earnings power of those other companies. And I think, and so far, magically, that seems to be the case.

Sam Nangia: That's great. Thank you. And just a quick follow-up, could you comment at all regarding what margins were like in Europe versus the U.S. versus, you know, which part of the U.S. were perhaps more profitable than others?

Jeff Skilling: We really don't publish that information.

Sam Nangia: OK. Thank you.

Jeff Skilling: Yes.

Operator: We will now go to a question from Mr. Andre Meade with Commerce Bank.

Andre Meade: Hi, can you hear me this time?



Jeff Skilling: Yes.

Andre Meade: All right, great. Two quick questions. One is a follow-up on the assets and investment sales. Looks like you sold down some assets in Europe and that goes into your recurring IBIT for the quarter. Looking forward to 2001, you've announced some sales of turbines to Allegheny, some turbines to Synergy, pipes to AP, barges to AES, and then I've seen press about selling down Dabhol, Indian Oil and Gas assets, international power plants gas distribution and perhaps Azurix. Will you be booking those sales in recurring IBIT going forward, or is this more a significant shift in your assets and investments category and you'll book that as non-recurring gain?

Jeff Skilling: Let me have Rick Causey, who's our chief accounting officer, address that question.

Rick Causey: Yes, typically, you know, as is clear, we have an ongoing process of looking at our portfolio, optimizing the level of capital investment, and what not, and so we consider that recurring activity and most of those items you mentioned have or would be in the future in that asset and investment bucket, and it's been that way for really a number of quarters or years at this point.

Andre Meade: Ok it just seems like a more, more a shift in your strategy in trying to get less asset intensive. I know you said there is plenty of room to lighten up on assets. You've been disappointed you haven't sold off as many. I mean, is this, can you see a buildup back on the assets side forthcoming or is this - and, if not, then, how is this recurring, I guess?

Jeff Skilling: Well, what our business is, we're packaging energy supplies for customers, and contracts look an awful lot like assets to us. So, we're buying and selling contracts, we're packaging those for the customer. If a component is better offered through a physical asset than through a contract, then we'll do the physical asset. So, it's really just a question at any given moment, what's the best way to put it together for the customer. You know, if you think about a power plant, a power plant is just a whole bunch of 30-day power sales in a row for a long period of time. And so, it's typical that when a customer comes in and has a need, we will slice and dice either an asset or slice and dice a contract to put that together, package it for them, in the form that they want it. And so, it's all a part of one single business model and that's why.

Andre Meade: OK, question on a related or a non-related topic, Retail energy services. If I understand how you account for the contracts, if you can lock in a gain over the entire length of the contract with forwards and so forth, you will book that in year one. Is that correct?

Koenig: On retail we use the same methodology for contracts that require price risk management accounting, as we do in wholesale.

Andre Meade: OK. Do you have - you have 103 million recurring IBIT for 2000. Do you have a comparable cash flow figure for retail energy services 2000?

Koenig: We don't, yet, Andre, but again, there is very little capital there, so the DD&A number is pretty small. There is some interest and taxes that would come off of that number, so it's slightly less than the IBIT number.

Andre Meade: Slightly less, but in the same ballpark?

Koenig: Well, there would be, again, the tax rates you'd apply to it, but there is not a lot of capital so there is not either a lot of interest expense or DD&A that you'd adjust to it, so take 70 percent of it.

Andre Meade: OK. OK. Thanks.

Jeff Skilling: I think we'll take just one more question.

Operator: Thank you, sir. Our last question today will come from William Maze with Bank of America.

William Maze: Yes, good afternoon folks. Can you hear me this time?

Jeff Skilling: Yes.

William Maze: OK, great. Just a follow-up on the previous question on the asset and investment. I'm wondering if you could give us a breakdown of how much was actually asset sales versus the increase in value of your merchant energy operations, and what are the variables that go into the increase or decrease in value of the energy merchant?

Skilling: OK. The numbers are, it's about one-third of the total was an increase in value, two-thirds was from sale of assets. And, basically, what's done, we have assets there - the assets in the merchant portfolio are heavily oriented toward energy assets, primarily natural gas assets, as it turns out. And what we do is we just recognize the value of those on the balance sheet and for income purposes, based on what the prices are for those, if they're a security or if they're an equity, just recognize based on what the quarter end marketplace values are.

William Maze: OK, great. And then just lastly, on Portland General, there's obviously an increase in activity there year-over-year and I was wondering if you can just comment on that?

Koenig: On their income, Will, or on the...

William Maze: On the revenue and the gross margin line.

Koenig: They had an excellent year in the pure regulated business and they've handled very well the volatile prices and earnings opportunities in some of their wholesale business, but it's a very solid year for Portland General.

William Maze: Ok, great. Thanks, and we look forward to seeing you.

Skilling: Ok, great, with that I think we'll close it out, we sure appreciate everybody calling in. Again, to summarize, just absolutely, outstanding year, outstanding quarter for the company. And as we look forward to the year 2001, the environment and our position in that environment look great. So, were feeling very good about things right now. So thank you very much.

Operator: This concludes today's conference call. Thank you, everyone, for joining us.

END